

Message Text

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ACTION EB-07

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FM AMEMBASSY SANTIAGO

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TAGS: EFIN, CI

SUBJ: GOC LIMITS SAVINGS WITHDRAWALS

1. SUMMARY: IN SURPRISE MOVE WHICH COULD AFFECT CONFIDENCE, GOC HAS LIMITED WITHDRAWALS FROM READJUSTABLE SAVINGS CERTIFICATES (VHR) ACCOUNTS TO AVOID LARGE MONETARY EMISSION TO COVER LARGE-SCALE REDEMPTIONS OF VHR'S ANTICIPATED AFTER JULY 1 READJUSTMENT. PARTIAL LIQUIDITY WILL BE RESTORED TO VHR'S THROUGH NEW TRANSFERABLE BONDS. END SUMMARY.

2. DIARIO OFICIAL OF JUNE 14 PUBLISHES DECREE 1069 WHICH LIMITS MONTHLY WITHDRAWAL FROM READJUSTABLE MORTGAGE SECURITIES (VHR) ACCOUNTS TO 500,000 ESCUDOS (\$98.04). UNUSED WITHDRAWAL RIGHTS, HOWEVER, ARE CUMULATIVE AND LIMIT WILL BE READJUSTED FOR INFLATION MONTHLY BEGINNING JULY 1. VHR HOLDERS WILL BE ABLE TO USE ACCOUNTS FREELY TO AMORTIZE MORTGAGES OR PURCHASE HOMES WHICH ARE BEING FINANCED BY A SINAP INSTITUTION. THEY WILL ALSO BE ABLE TO EXCHANGE VHRS FOR NEWLY CREATED READJUSTABLE MORTGAGE BONDS (BHR) WITH FIVE YEAR MATURITY WHICH CAN BE SOLD IN SECONDARY MARKET TO OBTAIN ESCUDOS.

3. ACCORDING TO MINISTER OF ECONOMY DE CASTRO, ACTION WAS REQUIRED TO PRECLUDE HUGE MONETARY EMISSION WHICH WOULD HAVE

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BEEN NECESSARY IF, AS WAS FEARED, LARGE VHR ACCOUNTS WERE

DRAWN DOWN FOLLOWING JULY 1 READJUSTMENT. SAVINGS AND LOANS ASSOCIATIONS LACK LIQUIDITY TO COVER WITHDRAWALS AND WOULD HAVE HAD TO BORROW HEAVILY FROM CENTRAL BANK. THIS WOULD HAVE HAD SERIOUS INFLATIONARY IMPACT.

4. COMMENT: DEEP CHILLING OF VHR ACCOUNTS TOOK CHILEAN FINANCIAL SECTOR BY SURPRISE, BUT OFFICIAL ASSOCIATION REPRESENTATIVES OF THAT SECTOR HAVE PUBLICLY VOICED SUPPORT FOR ACTION. A FEW LARGE-SCALE SPECULATORS WILL BE PENALIZED BY THE NEW ARRANGEMENT, PARTICULARLY IF NEW MORTGAGE BONDS CAN BE SOLD ONLY AT SUBSTANTIAL DISCOUNT, BUT 8 PER CENT INTEREST THIS WILL PAY SHOULD HELP AVOID THIS. FURTHERMORE, SOME

BUSINESS FIRMS, SCHOOLS AND OTHER ORGANIZATIONS ARE COMPLAINING THAT THEY HAD HELD WORKING CAPITAL IN VHRS TO PREVENT EROSION BY INFLATION. NEW DECREE LEAVES OPEN POSSIBILITY OF EXCEPTIONS BY GENERAL CATEGORY, IN FUTURE.
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